

## **Press Release for Andhra Pradesh State Financial Corporation's Issue Rating**

### **Brickwork Ratings assigns "BWR A+" for Proposed Andhra Pradesh State Financial Corporation's Fixed Deposits Programme of 1.8 billion.**

**Andhra Pradesh State Financial Corporation**

**Issue Rating: BWR A+**

Brickwork Ratings (BWR) has assigned BWR A+ (pronounced BWR A plus) to Andhra Pradesh State Financial Corporation's proposed Fixed Deposits Programme of INR 1.8 Billion or Rs 180 crores. The rating reflects several factors including, majority ownership of the Government of Andhra Pradesh, favorable operating spread and returns, lower NPA, highly diversified loan portfolio, adequate capital ratio, and good management practices. In the present turmoil of financial crisis, the government ownership is a comforting factor.

Andhra Pradesh State Financial Corporation was established on 1<sup>st</sup> November, 1956 under the State Financial Corporation Act (1951) with the merger of Andhra Financial Corporation and Hyderabad Financial Corporation. APSFC provides credit in the form of Term Loans / Working Capital Term Loans to Micro, Small and Medium Enterprises (MSME). The state government is a majority shareholder with a stake of 85.85 percent followed by SIDBI that has 14.02 percent stake.

Andhra Pradesh has the fourth highest Net State Domestic Product (NSDP) amongst Indian states. The state's GSDP (at current prices) grew 16.10% during (FY'07-08) as compared to 14.04% during the previous year. The Agriculture sector has registered growth rate of 10.08% as against 4.50% at national level. The industry has grown by 9.88% as against the national average of 8.5%.

The Revenue Receipts as percentage of GSDP have increased in 2007-08 to 18 percent as compared to 2004-07 (average) of 15 percent. The states own tax revenues are 56% of revenue receipts. Sales Taxes contribute over 36% of revenue receipts and comparable to most industrialized states. The state excise revenues are 7.4% of the revenue receipts and the state has the potential to increase these revenues. The revenue increase was due to bullish economy, FDI and FII inflows, resultant jobs in IT and other industries, buoyant real estate sector etc.

Andhra Pradesh state government has generated a Revenue Surplus of INR 4.51 Billion during (FY'07-08) and it has been successful in reducing the GFD-GSDP ratio to target of 3 percent. The Debt-GSDP ratio for Andhra Pradesh is 37.5 percent, which is above the recommended level of 30.8 percent.

APSFC's total Income has increased by 43.03% to reach INR 2.27 Billion as on 31<sup>st</sup> March 2008 from INR 1.58 Billion during the previous year, due to improvement in recoveries of written-off loans as well as high interest income. The net interest income increased to INR 910 million during 2007-08 as against INR 560 million in the previous year. The increase in net income during 2007-08 enabled APSFC to wipe out the entire accumulated loss of INR 840 million as on 31<sup>st</sup> March 2007. Its operational profit also increased to INR 150 million as on 31<sup>st</sup> March 2008 from INR 81.5 million during the previous year. APSFC's ROA at 5.49% is higher than 2.1% of peers. APSFC's operating profits have grown and the corporation has kept administrative expenses in check.

APSFC's asset quality remains strong and showed improving trends during 2007-08. The standard assets reached INR 13.8 Billion as on 31<sup>st</sup> March 2008 from the previous level of INR 10.62 Billion. The sub-standard assets, doubtful and loss category loans were brought down. APSFC was able to collect over INR 770 million NPAs that were provided as provision for NPAs

earlier. The Net NPAs as a percentage of loans and advances came down to 4.27 percent as on 31<sup>st</sup> March 2008 from 25.78 percent as on 31<sup>st</sup> March 2004. APSFC had to make only 1.94% loan loss provision this year since a large portion was provided for last year.

APSFC has reported total capital adequacy ratio of 15.8% as on 31<sup>st</sup> March 2008 as compared to 6.5% for the same period a year ago. The added capital infusion was via Government's capital infusion to the extent of INR 1.08 Billion, in the form of 271 acres of land. The capital adequacy is better than 15.26% of its peers. RBI recommends a minimum of 10% capital adequacy for the Non Banking Financial Corporations and State Financial Corporations. APSFC significantly reduced its leverage to 6.3 as on 31<sup>st</sup> March 2008 as compared to 15.3 for the same period a year ago. It is slightly lower than that of its peers.

Overall, Brickwork Ratings factored the Government of Andhra Pradesh ownership, quality of assets, growth in income, decline in net NPAs, and lower leverage. However, managing risk associated with its credit and loan portfolio is a key challenge in the present turmoil of financial crisis and changing economic conditions. The detailed rationale is enclosed as Annexure A.

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